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**CHANGE AND THE PERCEPTION OF  
PSYCHOLOGICAL BREACH:  
A CASE STUDY OF THE IMPACT OF  
CHANGE ON THE PSYCHOLOGICAL CONTRACT  
OF SENIOR MANAGERS IN  
AN ACQUIRED ORGANISATION**

**THESIS**

submitted in partial fulfilment of the  
requirements for the degree of

**MASTER OF ARTS**

in Organisational Psychology

by

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June 2000

## **ACKNOWLEDGEMENTS**

In completing this dissertation, I had the support of a number of people whom I would like to acknowledge and thank.

- To my supervisors, Professor Max Sully who provided support and showed endless patience at the start of my research study, and Anthony Hill who provided valuable support at the end.
- To Ian Wheeler and Fred Jacobs who allowed me to conduct the research within the organisation.
- To all the subjects who gave up their valuable time during a stressful and pressurised period to be part of the study. Thank you for your honesty and willingness to discuss your thoughts and experiences with me.
- To all my family, friends and colleagues who encouraged and supported me, and who gave me the space that I needed.

## **ABSTRACT**

With the entrance of South Africa into the global market, companies are facing enormous challenges in competing in a constantly changing environment. Organisations are using strategies such as mergers and acquisitions to ensure their survival. The impact of these organisational changes on employees is high, and the need to understand how employees deal with these changes is critical. The aim of this research study was to discover whether senior managers experience changes that result from the acquisition of their company as a breach of their psychological contract.

An embedded case study design was deemed appropriate due to the need to understand the experience of change over a period of time from the perspective of the subjects. Seven senior managers were selected to be part of the longitudinal study, and three in-depth interviews were conducted with each of the subjects over a period of six months.

The results confirm that psychological contracts are dynamic and resilient in nature. Though changes were perceived as breach of the psychological contract, subjects were willing to re-negotiate their contracts with the organisation. This openness to re-negotiation can be attributed to the way in which the organisation generally handled the changes, the nature of the psychological contracts, the high level of trust that subjects had in the organisation, and the personal circumstances of the individual subjects. The perception of and relationship with management also had a significant impact on the outcome of perceived psychological breach.

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## CHAPTER 1: INTRODUCTION

Due to the effects of globalisation and technological change, organisations are under huge pressure to adapt and innovate, not only to gain a competitive edge, but also to survive. To compete in the global market place, organisations often embark on various transformational processes or major change interventions that require change at both an organisational and individual level. These interventions can either have an external or internal focus, with mergers and acquisitions classified as external interventions, and organisational restructuring, downsizing and retrenchments regarded as internal interventions.

External interventions tend to be more dramatic and visible than internal change processes because of the wide ranging impact that they have. Cartwright & Cooper (1994) state that mergers and acquisitions present particular challenges to management because

- they are highly emotive and potentially stressful events that affect all employees
- they create high expectations of change
- they increase intra-organisational cohesiveness (i.e. employees within each company tend to unite and identify more strongly with their current company), and this helps to delay or prevent the effective integration of the companies involved
- managers usually under-estimate the potential difficulties that can arise and thus the time required to integrate the organisations, and
- they often result in the unplanned loss of employees at all levels, which entails not only the loss of skills and knowledge in the organisation, but also results in disruption and de-motivation for those who remain behind.

The loss of key employees in particular could potentially have a crippling effect on the organisation, and it therefore becomes an issue of concern to management.



Behavioural changes that are required during such transformational change involve a difficult and long-term process that demands management commitment and persistent effort (Blumental & Haspeslagh, 1994). To effectively manage and cope with the changes that result from a merger or acquisition, in particular, managers and staff have to find new ways of thinking about, and doing things (Isabella, 1992). As a result of these changes, the organisation develops different expectations and requirements of employees. This in turn often results in changes to the employment relationship and the 'psychological contract' that underlies this relationship (Robinson, 1996).

This psychological contract that employees have with the organisation plays a crucial role in determining the behaviour of individuals (Anderson & Schalk, 1998). The psychological contract refers to the beliefs that each employee holds about the reciprocal obligations that make up the relationship between him- or herself and the organisation. Such a contract will therefore impact on factors such as performance and organisational commitment, and may contribute significantly to whether change interventions or processes are successful.

This study will try to determine whether changes resulting from the acquisition of a company by a competitor are experienced by senior managers in the acquired company as a breach of the psychological contract.

## CHAPTER 2: LITERATURE REVIEW

Organisations under pressure to adapt to rapid and constant change often seek opportunities to merge with or acquire businesses that operate in the same markets, in order to achieve economies of scale, increased market share and synergies. These types of business interventions may impact on the employment contract, and in turn the psychological contract that employees have with the affected companies. With mergers and acquisitions, employees in the affected companies may feel increased insecurity about their future in the company, and may subsequently feel less obliged to display commitment to the company, and organisational citizenship behaviour. It is therefore important to investigate whether changes resulting from a major intervention such as an acquisition are experienced as a breach of employees' psychological contracts, and if so, what their influence will be on attitudes and behaviour.

### 2.1 Definition of the psychological contract

The idea of the psychological contract emerged in the 1960's, when Argyris and Levinson first proposed the concept (in Anderson & Schalk, 1998). The initial definitions of the concept dealt with the expectations of individuals about the obligations that each party owed each other in terms of the exchange relationship (Wolfe Morrison & Robinson, 1997). For instance, Dunahee & Wangler (1974) saw the psychological contract as 'the organisation's expectation's of the individual employee and the employee's attempts to meet those expectations. It also includes expectations of the employee, and the employer's continuing willingness to satisfy his needs.' (p. 520)

Schein (1980) defined the psychological contract as

‘An unwritten set of expectations operating at all times between every member of an organisation and the various managers and others in the organisation.’ (p. 22)

The concept has therefore been around for a while, but it is only during the last ten years that it has become a serious topic for research (Guest, 1998).

The definitions that enjoy current prominence tend to emphasise the importance of the subjective understanding and experience of the individual employee. An individual’s perceptions create his or her reality, and as such the perception of individual employees of the psychological contract will play a huge role in determining behaviour in the organisation. It is for this reason that it is important to understand the psychological contract from an individual’s point of view (McLean Parks Kidder & Gallagher, 1998).

The features of psychological contracts from this viewpoint are that

- i. the individual’s perceptions may not be shared by anyone else, and are based on perceived promises (i.e. any communications of future intent)
- ii. the contract is between the individual employee and the organisation, and not with any specific agent of the organisation (i.e. usually someone who holds a management position and who acts on behalf of or represents the organisation).
- iii. the agents of the organisation may not recognise the ‘reciprocal obligations’ which the employee expects from the company (Wolfe Morrison & Robinson, 1997).

Therefore a psychological contract exists at an individual level, in the form of an individual’s beliefs regarding his or her exchange relationship with the organisation, and these beliefs involve sets of reciprocal obligations to which both parties, it is believed, have committed themselves (Rousseau, 1998).

The contract is promissory in nature in that the beliefs are based on promises, whether explicit or implicit (Rousseau, 1990).

This premise differentiates it from previous definitions such as those proposed by Dunahee & Wangler (1974) and Schein (1980), who defined the psychological contract in terms of the much broader concept of expectations. Robinson (1996) argues that expectations are general beliefs about what individuals will find in their jobs and the organisation. The psychological contract on the other hand entails beliefs about what individual employees feel they are entitled to receive because they perceive that their employers have promised to provide them particular benefits or rewards. An example of an expectation would be when a newly promoted manager expects that he or she will receive a good salary increase because, for instance, of previous experience in another organisation or observations from others. A belief that forms part of a psychological contract would, on the other hand, perhaps be based on a perceived promise that was made during the interview that good performance would be rewarded with a commensurate salary package. This creates a perceived obligation on the part of the organisation to pay an employee well when they deliver an excellent performance.

The 'new' conceptualisation of the psychological contract also differs in another crucial aspect from original definitions in that the premise is that though organisational agents may have their own understanding of the psychological contract, they are not actually parties to that contract (Wolfe Morrison & Robinson, 1997). Guest (1998, 1998a) however supports the original definitions of the concept and argues that the concept and theory of the psychological contract is derived from a legal metaphor, and as such it involves two parties who both have expectations about the nature of the exchange contract with each other. He therefore argues that the perspective of both the individual employee and the organisation is important and that both should be researched.

While the importance and critical nature of the organisation's perception of and its role in determining the psychological contract is recognised, the focus of this research study will be on the individual's experience of the changing contract. The study attempts to understand individual managers' experience of changes resulting from an acquisition, and how this affects their psychological contract with the organisation.

For the purposes of this study therefore, the psychological contract will be defined as

‘an individual's belief in mutual obligations between that person and another party such as an employer (Rousseau & Tijoriwala, 1998, p. 679)

Obligations are defined as ‘beliefs, held by either the employee or employer, that each is bound by a promise to an action or course of action in relation to the other’ (Robinson, Kraatz & Rousseau, 1994, p. 138).

Psychological contracts therefore entail beliefs about what individual employees believe that they are entitled to receive because they perceive that their employer promised to provide particular benefits to them, either explicitly or implicitly (Robinson, 1996).

## 2.2 Nature of the psychological contract

Rousseau & Tijoriwala (1998) have helped to clarify the conceptual boundaries of the psychological contract. They argue that it is based on an individual's perception of what has been promised to him or her by the organisation, and this implies that his or her beliefs about the mutual obligations may be different to what is written, and interpretations by other principals or third parties. The individual is the direct source of information regarding the contract because

‘it is the *perception* of mutuality, and not mutuality in fact, that constitutes a psychological contract’ (p. 680).

They further argue that there is a distinction between beliefs and expectations. Beliefs that comprise the contract result from promises, whilst expectations are a broader concept that entails not only beliefs based on promises, but also expectations arising from causal reasoning or descriptive beliefs. Therefore not all expectations form part of the psychological contract.

However the distinction between expectations and beliefs become blurred in reality. For example, where the individual has noted that other employees are being rewarded for good performance, he or she will expect the same treatment for similar performance as there is an implicit promise that performance will be rewarded in this context. If the organisation consistently rewards good performers, then it is likely that this expectation will develop into a belief, particularly if the individual has been a recipient of such a reward. Breach of a belief will result in a much more intense and emotional response than the breach of expectations. Millward & Hopkins (1998) also theorise that beliefs in reciprocal obligations can arise from overt promises (e.g. incentive schemes discussed during the recruitment process), interpretation of patterns of past exchange, and vicarious learning (i.e. observing other employees’ experiences).

Rousseau (1990) has added clarity to the nature of psychological contracts by classifying them as relational and transactional, with individual contracts falling somewhere along the continuum between the two classifications. Transactional contracts will tend to focus on concepts such as monetary reward for performance, while relational contracts will centre on loyalty to the organisation as a result of job security or long-term employment (Anderson & Schalk, 1998).

The differences between relational and transactional psychological contracts may be described in terms of five dimensions that are explained by McLean Parks, Kidder & Gallagher (1998). The dimensions are stability, scope, tangibility, focus and time frame and the degree to which they are significant may differ, based on the type of employment relationship.

1. *Stability*: refers to the extent that the terms of the psychological contract are static and rigid, versus dynamic, malleable and evolving. Implicit in this is the idea that static contracts change through implicit or explicit re-negotiation of the contract; while dynamic contracts are unstable and emergent and may change or evolve with no sense of re-negotiation. Thus contracts evolve to include a revised set of obligations and entitlements, but the level of re-negotiation that is needed will depend on the stability of the contract.
2. *Scope*: refers to the extent to which the boundary between work and other parts of employees' lives is seen as permeable. The scope may vary from narrow to comprehensive and pervasive. Where it is perceived as broad, work will spill over into the employee's personal life; in contrast a contract with a narrow scope will have limited spill over between work and personal life.
3. *Tangibility*: refers to the extent to which the employee perceives the terms of the contract to be unambiguously defined and observable to others. The more tangible the contract, the less room there is for subjective interpretation of the terms of the contract.
4. *Focus*: refers to the degree to which the contract focuses on socio-emotional concerns versus economic concerns. Economic concerns include factors such as remuneration and benefits, while socio-emotional concerns include issues such as opportunities for development, status and loyalty. Contracts will differ according to the importance placed on socio-emotional concerns relative to concerns regarding monetary or tangible rewards.

5. *Time frame*: consists of two components – duration and precision. Duration refers to the extent to which the relationship is seen to be short- or long-term. Precision refers to the extent to which the relationship is perceived to be finite or indefinite. Thus both the expected length of the contract and the degree of certainty over when the relationship will end, will affect the nature of the psychological contract.

According to Rousseau (1990) transactional contracts will tend to have an economic and extrinsic focus, a close-ended and specific time frame, narrow scope, and be fairly stable, static, and tangible. The relational contract on the other hand will have an intrinsic focus that will include economic, non-economic and socio-emotional factors, an indefinite time frame and will be dynamic and pervasive in character. It will also be subjective and something that is understood rather than observed.

The findings of the study by Millward & Hopkins (1998) of the impact of temporary and long-term employment on psychological contracts support the existence of the two types of psychological contract (i.e. relational and transactional). Their results indicate employees with relational psychological contracts tend to have trust in the company, high affective commitment, high integration and identification with the company, and expectations of a long-term tenure in the company. Employees with relational contracts also tended to exhibit more organisational citizenship behaviour (i.e. 'going the extra-mile'), and reported a higher level of job and organisational commitment.

Millward & Hopkins (1998) further state that with transactional contracts, the individual feels that he or she should be compensated for satisfactory performance and is employed according to his or her current value to the company. In relational contracts on the other hand, an ongoing



relationship is established between the employee and the organisation, and involves the exchange of both monetary and non-monetary rewards (e.g. mutual loyalty, support and career development). Herriot & Pemberton (1996) expand on this notion in that they argue that transactional contracts imply strict reciprocity, while relational contracts appears to involve general reciprocity over time in which the exchange is unequal at any one point in time. This therefore means that with more transactional contracts, there is a stronger emphasis on 'quid pro quo', whereas more relational contracts will tend to be fluid in terms of demanding equal reciprocity. In the latter case, however, the balance in the exchange relationship will have to be maintained over time to avoid fatal damage to the psychological contract.

It is apparent that an individual's needs and concerns will influence the psychological contract that an employee has with the organisation. Rousseau (1990) argues that someone who wants long-term employment will tend to have a more relational contract with the company. On the other hand, an individual with a contract that is more transactional in nature will see employment with the company as a stepping stone to another job.

The culture of the organisation may also have an impact on the type of people who are recruited, and the socialisation of employees. Rousseau (1990) found in her study of the psychological contract of new recruits that employing organisations might foster different types of psychological contracts with their employees. Some employers (described as 'make-oriented' companies) may emphasise employee loyalty and long-term contributions of employees. This will be manifested in actions such as substantial investment in employee development and promotion from within. More 'buy-oriented' companies appear to emphasise the relationship between extrinsic reward and performance. They will tend to

make fewer commitments and appeal to employees' desire for high wages and other extrinsic rewards. During the recruitment and selection process, organisations may select employees with a tendency towards particular psychological contracts, while the socialisation process may help to develop aspects of the psychological contract in a particular way.

Guest (1998) proposes a model of the psychological contract that could be potentially useful in explaining the context in which the psychological contract is continuously being developed and negotiated. He argues that

- i. a number of causes or influences impact on the development of the contract, and these include organisational culture or climate, human resources policies and practices, experience, expectations and alternatives.
- ii. the content of the psychological contract comprises of trust, fairness and the delivery of the 'deal', and
- iii. the consequences of adhering to or breaking the psychological contract are job satisfaction, organisational commitment, a sense of security, employment relations, motivation, and organisational citizenship (i.e. 'going the extra mile') on the one hand, and absenteeism and intention to quit on the other. (Guest, 1998, p. 661).

He proposes a psychological contract continuum that focuses on the relational – transactional dimension, with at least four conceptually distinct steps:

1. the first is represented by the contract of employment
2. the second is found in various policies, handbooks, procedures and rule books that exist in organisations
3. the third is contained within agreements, usually between managers and employee, that arise from processes such as performance appraisals and reviews and goal setting, and

4. the fourth step involves issues that remain implicit and unwritten such as the understanding about career development and goals, and reciprocal commitment.

Career development appears to have particular relevance at present because organisations appear to be in a constant state of flux and are required to adapt and change to survive in a turbulent environment. Hall & Moss (1998) argue that because organisations cannot guarantee job security, the nature of psychological contracts are changing from a more relational to transactional orientation. Individuals cannot build careers in organisations, and therefore have to develop their careers by moving from one organisation to the next. Their focus will tend to be more on monetary and tangible rewards rather than on building a relationship with the organisation, and showing organisational commitment and loyalty. This change will obviously have an impact on how organisations and employees will need to be managed in the future.

### 2.3 Importance of the psychological contract

As argued in the previous sections, the employment relationship is guided by the psychological contract. This contract underpins the understanding of what one party owes the other, and vice versa, and thus plays an important role in determining the attitude and performance of individuals (Anderson & Schalk, 1998). Guest (1998) argues that the value of the psychological contract lies in the fact that it

- i. reflects the individualisation of the employment relationship,
- ii. draws attention to the range and complexity of the type of contracts that exist in organisations,
- iii. provides a potentially useful construct to understand and explore new employment relationships, and

- iv. helps to focus on the distribution of power in employment relationships.

Understanding the psychological contract is therefore important as it impacts on organisational extra-role behaviour (i.e. 'going the extra mile'), loyalty and commitment, desire to stay with or leave the organisation, and performance.

Research has shown that the psychological contract changes as the needs, experience and circumstances of an individual change. Changes in job circumstances and organisational factors (e.g. salary increases, promotions or the possibility thereof, changes in benefits) continually lead employees to reassess their psychological contract along the transactional/relational continuum (Millward & Hopkins, 1998).

In one such study, Robinson, Kraatz & Rousseau (1994) explored how the psychological contract changes over the course of an employment relationship. They found that the perceptions of new employees regarding mutual employer-employee obligations changed substantially during their initial years in the company. Their results seem to indicate that the employees' perception of the obligations owing to the company decreased over time, while their perception of what the company owed them increased.

In their study of the impact of socialisation on new British Army recruits, Thomas & Anderson (1998) found that their relational orientation increased. Their expectations regarding job security, effects on family, accommodation and social/leisure opportunities increased significantly over the first eight weeks. It appears that recruits rapidly adjusted their expectations of the employer's contribution to the psychological contract during the early stages of organisational socialisation. The results indicate that these changes appear to be due to the recruits' greater understanding of their environment

and their position in it. These findings highlight the fact that organisational socialisation plays a key role in determining the psychological contract of employees. However, it is important to note that an individual's background and experience will also influence the new employee's initial psychological orientation towards the organisation, and the way in which they interpret and make sense of the organisational context and their experiences in it (Jones, 1984).

Guzzo, Noonan & Elron (1994) found in their study of how expatriates' relationships with their employers changed as a result of working overseas, that the psychological contract mediates the relationship of employer practices to outcomes such as organisational commitment and intention to leave the company. They argue that the psychological contract is important in trying to understand employee attitude and behaviour during times of change. They believe that employees tend to focus on their psychological contracts as a result of trigger events. Commitment to the organisation may change as a result of a re-evaluation of the psychological contract that is prompted by a change in work related conditions.

Scandura & Lankau (1997) investigated how the perception that the organisation offered flexible working hours affected job satisfaction and organisational commitment. Most employees experience work-family conflict, and may negotiate new psychological contracts that include the option of flexible working hours to enable them to manage the conflict more effectively. They found that flexible working hours played an important role in increasing both job satisfaction and organisational commitment, particularly for women. This indicates that women may be more committed and satisfied with work when they perceive that their company offers benefits that assist them with their career-family demands. The result also supports their argument that women may develop different psychological contracts with the organisation compared to men, as family-

responsive policies such as flexible working hours may play a more important role in determining their relationship with the organisation and with work. Understanding the nature of the psychological contract of employees can therefore influence the development of policies that may help to retain skilled and committed employees.

Questions have been raised about whether the concept of the psychological contract differs substantially from that of organisational commitment (Guest, 1998). Millward & Hopkins (1998) found, however, that though there appeared to be a correlation between the relational contract and job commitment, there was also a significant relationship between relational orientation and whether an employee would go an extra mile for the company (i.e. work extra unpaid hours). The concept of a psychological contract therefore has the potential to explain variance in behaviour beyond that of the concepts of job and organisational commitment.

#### 2.4 Breach of the psychological contract

It is unlikely that parties involved in a contract will adhere to all the 'terms' of a psychological contract all of the time. Dunahee & Wangler (1974) notes that by its very nature, the contract will be continuously expanded, modified and interpreted by both parties. Such changes may be perceived by one of the parties as the failure of the other party to fulfil its obligations. This failure is referred to as a breach of the psychological contract (Robinson, Kraatz & Rousseau, 1994). Changes in the business or social environment will impact on organisations and individuals, and for example, may consequently lead to changes in the needs and obligations that may comprise the psychological contract (Herriot & Pemberton, 1996). A breach of the contract may occur as a result of these changes. For instance, organisational changes cause the organisation to change the

employment contract (both explicit and implicit) with the employee and this results in psychological breach. Rousseau (1998) notes, however, that the psychological contract is often resilient in the face of changes experienced by an individual, and that individuals are prepared to 're-negotiate' (i.e. re-evaluate and modify or change) their contracts with the organisation.

Wolfe Robinson & Robinson (1997) provide a model on how psychological contract breach and violation develops. They emphasise the dynamic nature of the psychological contract and note that employees evaluate contract fulfilment in terms of their current understanding of the employment agreement, which may differ substantially from the original agreement. They make a distinction between breach of the psychological contract and violation. Perceived breach refers to the cognition that the organisation has failed to fulfil its obligation/s within the psychological contract in a way that is commensurate with the individual's performance. Violation refers to the emotional and affective state that may follow from the belief that the organisation has not adequately fulfilled its obligations.

They postulate that there are two conditions that may give rise to breach and violation: *reneging*, which involves the agents of the organisation knowingly failing to fulfil an obligation to an employee; and *incongruence*, where the employee and the organisation has a different understanding of a particular obligation. The decision to renege is influenced by the power relations in the exchange relationship. Thus the organisation is less likely to renege where the employee is perceived to have critical skills and knowledge that are difficult to replace. In cases of incongruence the organisation is unaware that it has committed a breach of the psychological contract. This could be a result of the different perceptions of the exchange parties, the complexity or ambiguity of the obligations, and a lack of or unclear communication.

Whether an individual will realise that a perceived obligation has not been fulfilled will depend on its salience, and his or her vigilance. Salience refers to the degree to which an obligation stands out because of its importance to an individual and how vivid it is, either because it was very explicit or it was made recently. Vigilance refers to the extent an employee will monitor how well the organisation is fulfilling its obligations. Because it requires energy, vigilance may vary in intensity over time, either due to a lack of trust or whether the relationship is relational or transactional. It is likely that balance and repayment are more important in transactional relationships and therefore vigilance is likely to be higher in such relationships (Wolfe Morrison & Robinson, 1997).

For a breach of contract to be perceived, an employee must determine that a promise has not been fulfilled and his or her contribution has not been adequately reciprocated. Due to the perceptual nature of this process however, individuals may perceive that an obligation has not been fulfilled and yet not consider it a contractual breach, and vice versa.

If it is perceived that there has, in fact, been a breach of the psychological contract, it may have little impact on the behaviour of the employee concerned. The more likely outcome, however, is that a feeling of violation follows the perceived breach. This encompasses such emotional and affective experiences such as disappointment, frustration, anger and resentment. The intensity of these experiences will be affected by the individual employee's assessment of the degree to which an outcome is negative or positive, whether the breach is perceived as intentional and whether it is regarded as unfair. Wolfe Morrison & Robinson (1997) note that this assessment takes on meaning in a particular social context. Thus what might be perceived as breach and violation of a contract in one organisation, or even a business unit, might not be regarded as even a



breach in another. They also note that the experience of violation will tend to be more severe in individuals with relational contracts than those with transactional contracts.

Robinson & Rousseau (1994) found in their study of MBA alumni conducted over a two-year period, that fifty five percent of the subjects reported experiencing violation of their psychological contracts. This would seem to indicate that breach occurs fairly frequently. Violation was found to correlate negatively with satisfaction, trust and the employees' intention to remain with the company and positively with actual turnover. The results also indicate that the level of trust of individuals with relational contracts who intended to develop a career in the company was most affected by violation. However the impact of violation was similar for both those with relational and transactional contracts in terms of satisfaction, intention to remain and turnover.

Violation affected both relational and transactional psychological contracts. The study by Robinson, Kraatz & Rousseau (1994) found that perceived violation caused those with relational contracts to lose trust and caused irreparable damage to the contract. Transactional contracts created inequity in the exchange relationship but these could be adjusted by changing the employees' perception of obligations. They further found that there is an important relationship between the actions of managers and employees' perceptions, and fulfilment of their obligations. Violation had less impact on employer obligations than on employee obligations. They theorise that this could be due to the fact that employees feel they have little power to change employer behaviour and therefore adjust their own behaviour to redress the situation.

Violating a psychological contract is therefore the failure of the company to respond to an employee's contribution in a way which the employee

believes that the company is obligated to do (Rousseau, 1989). Robinson & Rousseau (1994) argue that a violation occurs when one party in a relationship perceives another to have failed to fulfil promised obligations. They distinguish between a violation of a psychological contract and unmet expectations. When employees' expectations are not met, they progressively get more dissatisfied, perform less well and may become more likely to leave the organisation. For instance, when an employee expects to be paid a market related salary for good performance and is not, he or she may feel disappointed but may still maintain a fairly positive attitude towards the organisation. The relationship may therefore remain largely in tact, unless his or her expectations are continuously not met by the organisation. The response of employees to breach of the psychological contract will tend to be far more intense and have a more immediate effect. In this case, when employees believe that the organisation has promised them a substantial increase for excellent performance and they do not receive it, they will feel that a promise has been broken and believe that they have been unfairly treated. This will result in anger and will erode trust in the relationship, which may, in turn, cause employees to be less committed to the company and may impact negatively on performance. This may severely damage the relationship between the employee and the company.

The important issue that underlies this feeling of violation is trust. This develops from the belief that contributions by the employee will be reciprocated in a particular way. Once trust is broken it is difficult to repair the relationship and restoration of the contract will have to involve the re-establishment of trust (Rousseau, 1989). In her study on the relationship between employees' trust in the employer and their experiences of psychological contract breach, Robinson (1996) found that the effects of breach could be enduring. The results indicate that psychological contract breach was negatively related to performance, civic

virtue behaviour and intentions to remain with the organisation, and that these effects were still apparent one year after breach had taken place.

The level of trust that employees have in the organisation may also influence whether or not they recognise a breach of the contract, their interpretation of that breach and their reaction to the breach. For instance, the results indicated that employees with low initial trust in their employer experienced a greater decline in their trust following their perception of breach of the psychological contract than those employees with higher levels of trust in their employer. Thus it would appear that employees who had higher trust levels in their employers were less likely to perceive contract breach, and were more likely to retain their trust in the company despite changes to their employment contract.

Robinson & Wolfe Morrison (1995) investigated how violation of the psychological contract impacted on organisational citizenship behaviour (i.e. going the extra mile or extra-role behaviour). Their findings indicate when employees believed that their employer had not fulfilled their relational obligations such as career development and training, they were less likely to engage in organisational citizenship behaviour. Their results also further support the notion that the erosion of trust and good faith diminish the willingness of the employee to display citizenship behaviour.

## 2.5 Importance of this study

Previous research indicates that the psychological contract is based on an individual's perception of reciprocal obligations with an organisation. It appears that these contracts tend to be fairly resilient and dynamic, with individual employees renegotiating the contract if breach occurs. There are, however, also indications that psychological breach may have more severe consequences, as it could result in a decrease in organisational commitment

and performance, and increase the intention to leave. Organisations therefore need to understand how changes impact on the psychological contract of employees.

Globalisation has resulted in an increase in mergers and acquisitions. South Africa has only recently become part of the global market and has already experienced a rise in such business interventions. This trend is likely to continue.

When considered in conjunction with the need of South African companies to survive in, and be part of, a transforming society, the need to understand the impact of change on individuals continues to grow in importance. Research in this area is therefore critical during this period of transformation.

This research study hopes to contribute to our knowledge by focusing on the impact of changes that result from an acquisition on the psychological contract that individual managers perceive that they have with their employer, in this particular case, the acquired organisation.

## **CHAPTER 3: METHODOLOGY**

### **3.1 Research design**

#### **3.1.1 Theoretical orientation**

Rousseau & Tijoriwala (1998) argue that where research is emic in nature, i.e. where the study focuses on the perspective or mental models of individuals or where it focuses on the unique psychodynamic processes of individuals, then qualitative methodology is the most appropriate. They also argue that qualitative research is more appropriate in a context which is experiencing substantial transition or change. This approach enables the researcher to understand the nature of the individual's psychological contract with the organisation, the interaction with organisational culture, as well as the complex processes involved in the adjustment of such a contract during rapid organisational change. Therefore a qualitative research design was selected for this study.

The advantage of using a qualitative approach for the study is that this allows the researcher to describe the unfolding of social processes rather than social structures, which tend to be the focus of quantitative research (Van Maanen, 1983). Denzin & Lincoln (1998) concur with this view and emphasise that quantitative research emphasises the measurement and analysis of causal relationships between variables, not of processes. In identifying the goals of qualitative research, McClintock, Brannon & Maynard-Moody (1983) note that it allows the researcher to do a detailed analysis of organisational processes which quantitative research does not aim to do.

Denzin & Lincoln (1998) note that both quantitative and qualitative research have traditionally fit within the positivist paradigm in that traditional evaluation criteria are emphasised, as is the use of procedures that may facilitate the structured analysis of data. However qualitative research allows the researcher to conduct an intensive study of a particular situation, and is able to provide explanations of processes in identifiable local contexts (Miles & Huberman, 1994). With quantitative research, understanding of causality may occur in isolation of the context and the meaning that subjects ascribe to their experiences. Quantitative researchers are driven by the need to study large numbers of cases from which to abstract conclusions. Qualitative researchers on the other hand, focus on the specifics of particular cases within their contexts (Denzin & Lincoln, 1998). With quantitative research, understanding of causality typically occurs in isolation of the context, and the meaning that subjects ascribe to their experiences (Sapsford & Abbot, 1996).

Besides enabling the researcher to gain an integrated overview of the context of the subject, through qualitative data the researcher is able to gain an understanding of the perceptions and understanding of an individual or individuals of a particular event or situation and how they react to it. McClintock, Brannon & Maynard-Moody (1983) suggest that qualitative research allows the researcher to understand an individual's frame of reference and perceptions of a situation, and to identify factors that will assist the researcher to understand causality. Qualitative methodology also provides a strong possibility for the understanding of underlying or latent issues, and for deciphering the meaning that individuals place on events, processes and changes (Miles & Huberman, 1994). As a

psychological contract is formed on the basis of the subjective understanding of individuals about what is expected from the organisation and what they will be given in return for meeting those requirements, this methodological approach is the most appropriate.

Another factor that lends weight to the argument for the need to conduct a qualitative research study, is that it allows for the collection of data over an extended period. Such a longitudinal study was considered necessary as it enables the researcher to focus on a process such as the adjustment of the psychological contract of individuals in organisations which are experiencing major change (Miles & Huberman, 1994).

Thus the qualitative research methodology is considered the most appropriate, given the need to understand the meaning that individuals place on their experiences in an organisation experiencing rapid change, and how these experiences affect their psychological contracts with the organisation over a period of time.

### 3.1.2 A Case Study approach

A case study approach is selected when there is a need to examine events in a context where behaviours cannot be manipulated. A situation such as this therefore requires direct observation, systematic interviewing and the analysis of primary and secondary documentation and artefacts. A case study approach enables the researcher to deal with data obtained from these sources (Yin, 1984).

Yin (1984) further argues that a case study has a number of evaluative applications. Besides explaining the context of a particular real life intervention, it can help to explain causal links found in such an intervention that are too complex for experimental or survey strategies to handle. A case study allows the researcher to explore situations in which an intervention has no clear outcomes. It is also used when the researcher investigates a contemporary phenomenon within a real-life context, where the boundaries between phenomenon and the context are not clear and where multiple sources of information are used (Yin, 1984).

Considering the complexities involved in the adjustment of the psychological contract of individuals in a changing environment, a case study was considered the most appropriate methodology to use in this research study. This research study can be further classified as an instrumental case study in that it attempts to contribute to existing theory (Stake, 1998).

The nature of the study lent itself particularly to an embedded single case study design. This appeared to be the optimum design in that the organisation chosen as the site for the research presented a unique opportunity to study the impact of organisational changes on the psychological contracts of employees in an acquired company. It was decided to provide for multiple units of analysis to allow for greater insight in the research area, and to see whether there were any common explanatory threads in the cases selected.



### 3.2 The researcher as a participant

The researcher conducting this study works for the organisation in which the research took place. She worked as a Human Resources Officer and has worked extensively with the subjects who form part of the study.

Foster (1996) notes that the role of the researcher will vary in the group or setting in which the study takes place according to the purpose of the research. Where the purpose of the study is to collect ethnographic data using less structured techniques, then the role of the researcher is more likely to be that of a complete participant. This is the case in this study.

In this instance the researcher has an established role in the group. As Foster (1996) notes, the advantages of the role of the complete participant are that it facilitates access to employees in the organisation and places the researcher in a position to do the research. It also allows the researcher to play an 'insider' role that provides him or her with a greater understanding of the social world from the subjects' point of view as well as access to information that may not be available to external researchers.

There are limitations to this role, which are faced by all researchers involved in ethnographic research. Data collection may be restricted due to the need to maintain the participant role. Being a participant is time consuming and may limit the time allowed for data gathering and the processing of data. There is potential for role conflict, and there is also the possibility that the researcher will influence the people who form part of the study.

The role of the ethnographic researcher is further complicated by the need to also 'manage marginality' (Foster, 1996, p.78), which entails balancing the 'insider' and 'outsider' roles. The researcher needs to play an 'outsider' role in that the researcher should not identify too closely with the subjects

and should try to remain relatively detached. On the other hand, the researcher needs to be able to empathise with the subjects to understand their experience from their point of view. The researcher also needs to establish trust and rapport with the subjects and therefore cannot remain too detached. It is vital that the researcher is able to balance these two roles to conduct effective research.

Within the traditional positivistic paradigm, the researcher needs to be objective and free of bias. The role that the ethnographic or qualitative researcher plays does therefore not fit comfortably within this paradigm. However all research is interpretative, and is guided by the set of beliefs, values, feelings which shape the way in which researchers see and act in the world (Denzin & Lincoln, 1998). Atkinson & Hammersley (1998) take this a step further and argue that conclusions produced by researchers are constructions, and that they therefore reflect the presuppositions and social history of the researcher. Researchers adopting a quantitative research design are therefore likely to be no less free of bias or subjectivity than qualitative researchers. Therefore, the role of complete participant should not invalidate the role of the researcher in this instance, as long as he or she attempts to maintain rigour in the research process and interpretation of the results.

### 3.3 Ethical considerations

Sapsford & Abbot (1996) argue that the possibility of causing harm to subjects who participate in research exists. It is also important to be aware that research is embedded in people's lives, and therefore not only the research subjects may be harmed, but the people they may be considered to represent. Careful consideration therefore needs to be given to the ways in which the research may have a negative impact on anyone whose interests may be touched by the research.

A prerequisite for ethical research is that agreement be obtained from the subjects to participate in the study (Sapsford & Abbot, 1996). Therefore, once the potential subjects were identified, they were given an explanation of the purpose of the study and asked whether they would like to participate. The possible demands that could be placed on their time were also explained, as the potential subjects were all senior managers and experienced substantial time constraints. Due to the complete participant role played by the researcher, it was also thought important to clarify the role of the researcher.

Case studies often deal with issues which are private and not for public interest, and elicit personal views and circumstances (Stake, 1998). The need to obtain information therefore does not give the researcher the right to invade the privacy of the subject. As the interviews covered aspects of the personal lives of the subjects, the researcher asked their permission to discuss personal issues or areas regarded as sensitive. The subjects were given the discretion as to how much information they chose to reveal.

As subjects were asked to give their views on organisational issues, the information provided was regarded as highly sensitive, as it could potentially have an impact on relationships within the company and career development. A commitment was therefore given that information provided would be kept confidential, and that a summarised report on the research study (and not the total research study report) would be given to the organisation. The summary would protect the confidentiality of the subjects as much as possible. It was also agreed that the participants would receive copies of the research summary.

### 3.4 Context of the case study

The context of the case study is important, as the purpose of the research is to investigate whether senior managers experienced organisational changes as a breach of their psychological contract.

The site for the research study was the biggest shipping company in South Africa, which in turn forms part of an international company, based in Antwerp, Belgium.

The acquired company was established in May 1946, and has dominated the shipping industry in Southern Africa for much of its fifty-three year history. In 1991 they bought a substantial holding in a Belgian shipping company to gain a foothold in the global shipping market. The two companies finally merged in December 1995, and became wholly owned by the South African Company in July 1998. The international head office was located in Antwerp, while the South African head office remained in Cape Town.

Due to the decision by the shareholder at the time, a major South African insurance company, to re-focus its business as a financial organisation, they decided to sell their stake in the corporation in 1998. As a result of this, and due to the demands of the buyers in the market, the shipping related business was unbundled and sold as two separate companies. The Liner division of the company was sold to the biggest liner shipping company in the world, a Danish company, in March 1999.

The sale came into effect on 1 June 1999. The new shareholder had purchased the company with the intention that it would be run as an independent company within the group.

The new shareholder decided to acquire the company because their own liner division had not been able to penetrate the Southern African market. This was due to the strong brand and customer relationships of the acquired company. Their acquisition of the company was a strategy to improve their market share in the region.

Prior to the sale being approved, the acquired company had gone through a major restructuring exercise, part of the 'Getting Fit' strategy which was put in place to make sure that the buyer would have a more efficiently structured organisation. Approximately sixty people were retrenched in the period January to June 1999. The new shareholder guaranteed that there would not be retrenchments as a result of the acquisition.

The board of the acquired company met in March 1999 to establish a strategic plan and goals for the company, which the management of the new parent company approved.

### 3.5 Data collection

#### 3.5.1 Sampling

Morse (1998) argues that a good subject in qualitative research is one who has the knowledge and experience that the researcher requires, has the ability to reflect, has the time to be interviewed and is willing to participate in the study (taken from Morse, 1986). Stake (1998) states that in selecting a sample for a case study, balance and variety are important, as are the limitations imposed by access to individuals. However, the most important factor is the opportunity to learn from the subjects selected.

Taking this into consideration, it was decided to target senior management (Peromnes Grades 5 and 6), as they would be the first level in the organisation to be exposed to changes that resulted from the sale of the company. As the researcher worked with the agency division of the acquired company, she selected managers, who worked in this division as subjects, as she had already established a relationship with them. The subjects were also chosen because they had extensive knowledge of the organisation, and worked in different areas of the company. The sample group was limited to seven subjects, not only due to the demands of case study research, but also because they represented the number of managers in the agency at this level.

Another consideration was that the sample should include representation from different race groups and genders, as they may have had different experiences in the organisation, and would experience things differently because of their social background.

The sample group therefore consisted of three White males, three Black males (two Asian, one 'Coloured') and one White woman. The average age was 38.6 years, and their average number of years of service in acquired company was 14 years

### 3.5.2 Methods of data collection

Utilising different sources of information enables the researcher to gain a more holistic view or understanding of an event or experience, and to increase confidence in the research findings (Yin, 1993; Fielding & Fielding, 1986).

Accessing information from multiple sources can be regarded as a form of triangulation (Fielding & Fielding, 1986). Triangulation can be used to check the validity of observations by cross-checking them against other sources of information. If a researcher's conclusion is supported by data from other sources, then it increases confidence in its validity (Foster, 1996).

One of the strengths of the case study approach is that it enables the researcher to deal with data obtained from artefacts, relevant documentation, interviews and observations, and this is known as data triangulation (Yin, 1984). Multiple sources of data form an important part of qualitative research, as the researcher should not rely on only one source of information.

The methods of data collection used in this study were:

1. interviews
2. observation
3. documentation.

Interviews were the primary source of data collection for the study. As the study was longitudinal in nature, three in-depth interviews were conducted with each of the seven subjects over a period of six months. A broad interview guide that stipulated the areas that were to be covered was used during each interview (see Appendix 1). The interviews were recorded with the subjects' permission and then transcribed.

The second method of data collection was observation. The researcher noted any interactions or events in the organisation that could impact on the subjects. In her interactions with the subjects

she also noted how they appeared to be feeling and coping with particular experiences.

The third method of data collection was documentation. This comprised of organisational team briefs that explained the change process and changes that were taking place, as well as major initiatives. In-house publications were also used to gain an understanding of the context of the organisation.

### 3.6 Data analysis

Yin (1993) states that when conducting case study research, data gathering and data analysis usually occur at the same time as it is necessary to evaluate the information as it is gathered. Therefore, once the interviews were conducted, they were transcribed as soon as possible after they had taken place. The interviews were then analysed and used to prepare for the next round of interviews. The interview data was then classified using a pre-determined list of codes. This was done to assist the researcher to understand the themes and patterns emerging from the research (Miles & Huberman, 1994)

Once all three rounds of interviews had been completed, the information was once again analysed to gain an overall picture of what had happened over the period of six months. As part of the case analysis, major themes, impressions and summary statements were identified for each individual (Miles & Huberman, 1994). The analysed data was then used to determine whether there were common themes emerging.

Once the common themes and issues had been identified, the researcher then used a five point rating scale to rate the intensity of feeling that each subject displayed about each theme or issue during the interview. This



was used to gain a rough idea of whether the subjects' feelings or attitudes towards the issues had changed over the six months. This was then assessed against the calendar of events (see Appendix 2), organisational documentation and notes obtained from the researcher's diary, to determine whether there appeared to be a relationship between events in the organisation and how people felt about various issues at a particular point in time. These different sources of information were used as part of triangulation.

## CHAPTER 4: RESULTS

The data was analysed as described in section 3. 4. Before tabling the results of the data analysis however, it is important to note that the data gathered during the interviews reinforced the findings of previous research regarding the nature of the psychological contract.

### 4.1 The nature of the psychological contract

All the subjects believed that if their performance deserved it, they deserved to be paid a salary that was market related and was commensurate to their worth and performance. They also expected non-monetary recognition for performance, and opportunities for growth and career advancement.

#### 4.1.1 Expectations of the company

The need for a remuneration package that was market related and recognised the individual employee's contribution to the organisation was very strong. This was illustrated by statements such as:

“What is my due...is recognition for the work that gets done, remuneration that is market-related, that is what they promise, and beyond that nothing. I think you have to earn promotion and those opportunities.”

“I need to be remunerated accordingly (for performance) and it is market related.”

While all forms of recognition were important, the most important one was remuneration. As one subject noted:

“What I put in my back pocket is more important than having my name on a plaque somewhere.”

Membership of a medical aid and pension fund was seen as fundamental to the employment contract.

“The three fundamentals when you join the company are obviously remuneration, pension fund and medical aid. How they well they look after me if I perform; and if my whole career is with the company, how well they look after me when I retire.”

There was also a belief that the company would treat them fairly. This was usually an underlying rather than an explicit belief, though a couple of subjects did bring it up as an important expectation. For example:

“The company should treat you fairly... They are fair in what they are offering in the employment contract.”

Thus, most of the subjects placed a strong emphasis on the obligation of the organisation to provide a good remuneration and benefits package, and this appears to indicate that they had a strong transactional component to their psychological contracts.

#### 4.1.2 Perceptions of obligations to the company

All the subjects believed strongly that they needed to deliver good performance to earn promotional opportunities and recognition.

“I will work for everything I get and if I feel that I’ve earned something and if I think I deserve something I will come forward and say so...”

“When you employ someone you expect their full effort.”

“If you are performing, you will be rewarded (through promotion).”

There are however indications that some subjects felt that there is an inequitable exchange between themselves and the organisation. Two of the subjects indicated that the organisation’s expectations placed heavy demands on them, sometimes to their detriment.

“They will expect myself and the other person to work our arse off to make it work. It doesn’t matter if we need to work after hours or weekends, it doesn’t matter if we have to travel, they will expect a lot of us.”

“I think quite a lot... They expect you to travel as and when you’re required to travel, which as you know I find stressful because I have small children and I don’t like to be away from them. I think they expect long hard hours and often for huge periods of time. I do think that they expect a lot.”

The subjects were however clear that if the company did not meet their needs, then they would be forced to consider leaving the organisation. The two subjects quoted above in fact raised doubts about how long they would remain with the company. As another subject said:

If you are not earning that (market related) salary, and if you look around and you see that the challenges and opportunities that are coming your way within the next period of time is limited and you don't see the growth, then you must have the strength of character to make a change.

## 4.2 Themes

A number of themes and sub-themes emerged from the data analysed. These were categorised into four main groups: changes to contract of employment, impact of organisational changes, perception of management/leadership and attitude towards the acquired company and the new shareholder or parent company.

### 4.2.1 Changes to the contract of employment

With the formation of the new company, employees were required to sign contracts with the new company. The stated aim of the management of the acquired company was to protect the terms and conditions of employment of the employees who were transferring across to the newly established company. However as a result of the 'unbundling' of the holding company, the medical aid fund and pension fund had to be changed. The incentive scheme was also

discarded as the new shareholder did not in principle agree with the concept of team based incentive schemes.

#### 4.2.1.1 View of new employment contract

In the period after they had received new employment contracts with the acquired company, all the subjects felt that overall there had been no substantive change to their contracts of employment when their contracts were transferred to the newly constituted company. Most felt that the process had been well handled. Examples of responses that illustrate this are:

“It didn’t really bother me. It isn’t really different to our old one.”

“There’s not much difference to the previous ones.”

“Not a hell of a lot has changed.”

“My first impressions of the employment contract that we were given is that they are very fair in what they are offering.”

“The three fundamentals are changing (medical aid, pension and remuneration). The rest is unchanged on the contract...It’s been handled quite well... We will not be substantially worse off.”

One manager did however express concern that employees were required to sign the contract with two fundamentals

(the medical aid and pension fund) still being finalised at the time, and felt that he had been forced to sign under duress.

#### 4.2.1.2 Transfer to new medical aid fund

The subjects were initially quite happy with the medical aid, but became less enthused by it as they began to claim for benefits. As one manager stated:

“I’m still trying to discover it (Discovery Medical Aid). It’s a little more fair but a medical aid is not a medical aid anymore.”

He and the other managers did not however blame the acquired company for the choice of medical aid but rather ascribed the problems they were experiencing with the medical aid to the fund itself, as reflected in the statements noted above and below.

“I’m a bit disappointed with that (medical aid), but it’s better than (the old Medical Aid).”

#### 4.2.1.3 Pending resolution of Pension Fund

The new pension fund had not been finalised by the end of the study (December 1999) but the subjects had, on the whole, a high level of trust that the trustees would make a good decision and would handle the process well. This high level of trust was based on the perception, as voiced by one of the subjects, that ‘the trustees have done an

excellent job'. One subject did however voice her concern that the communication around the resolution of the pension fund had been quite bad.

#### 4.2.1.4 Loss of incentive scheme

The loss of the incentive scheme aroused a more ambivalent response. As compensation for the loss of the EVA incentive scheme, the company built the incentive into the remuneration package ranges used for the annual increase in July 1999. Though the subjects recognised and appreciated this, it did not totally compensate some for the loss of the scheme. Relevant comments emphasize this:

“I was sad to see it (the EVA incentive scheme) go...But I think they met us more than half way.”

“Incentives are good to have...The incentive in one way was built into the salary increases in July.”

“I think whatever it (the incentive scheme) is replaced with, if it is replaced, is not going to be as good as what it has been.”

“Whether it’s the right way to go (the withdrawal of the incentive scheme), I’m not too sure.”

A couple of managers disagreed in principle with the way in which the incentive scheme had been structured or implemented, though this did not necessarily mean that



they were happy that it had been stopped. One manager believed that it had been inequitable, as it was heavily slanted towards management.

“It was just a way of remunerating senior staff members, a way of getting money out of the company.”

There was some ambivalence regarding the final pay out of the incentive. Only part of the organisation received the pay out. According to the way in which the EVA scheme was structured, only the agency division was entitled to receive the pay out. Though the subjects were happy to receive the money (as they all worked in the agency division for the 1998/1999 financial year), they felt that it had not been handled fairly.

“The pay out from (the South African holding company) was a rip off...It’s sad regarding the pay out to (the agency) and not to the Trades.”

“There is no way that the agency can be paid a bonus, when some of the Trades have also done very well.”

#### 4.2.1.5 Cessation of subsistence allowance

There were differing reactions to the cessation of the subsistence allowance as a tax. The reaction depended on whether the manager benefited from the scheme or not. Those who were directly affected were unhappy with the

fact that it had been stopped and felt that it had been badly handled. The following statements revealed the intensity of their feelings.

“It cost me time with my family and it might have cost me my marriage for all I know, with all the travelling that I did.”

“I was a little peeved about that (the cessation of the subsistence allowance). The subsistence allowance goes a long way to assisting one’s cash flow or profit margin. I think the government would be wise to re-look at it. I think to do away with it in totality is short sighted.”

Another manager thought that it was a good thing that the subsistence allowance had fallen away as he believed that some managers abused it.

“If the trip was a day or two, they would actually try to make it into a week or something. It was slightly abused...I bet in the next year the travelling will go down.”

#### 4.2.2 Impact of organisational changes

The major organisational changes which occurred during the six month period was

- 1) the start of the integration of the backroom functions of the acquired company and its sister company;

- 2) the Safst@r project which entailed the migration to the parent company's Global System; and
- 3) the shift towards a high performance culture.

#### 4.2.2.1 Integration of the backroom functions of the acquired company and its sister company

The integration between the 'backroom' functions of the two companies started with the integration of the two container fleets of the acquired company and its sister company globally and the merger between the logistics functions of the two South African companies. The integration process of the logistics functions started in August 1999 and was scheduled go on line on 1 March 2000. The announcement of the integration of the rest of the backroom functions occurred in November 1999, with the integration scheduled to happen in 2000, and the target date of total integration unclear. The 'backroom functions' refer to administrative and operational functions, and include documentation (export/import), bookings and pricing, logistics, finance and operations. The 'front office' functions were to remain separate, and refer to the sales and marketing functions of the two companies. The rationale behind the integration of the 'backroom' functions was the cost savings that would result for both companies, as well as the benefits to the new shareholder of marketing two brands in South Africa.

Initially the subjects reflected ambivalence towards the integration process. While they saw the cost benefits to the company and believed that the acquired company held the

upper hand in the process because of experience and knowledge, their concern regarding the potential total merger of both companies was evident.

“I don’t think that’s a problem – (the acquired company) has all the experience with consortia management and (its sister company) does not.”

“If we try to mesh the two organisations together, then we’ll have, I wouldn’t say a bloodbath, but (new shareholder) is not going to see their return on their investments.”

“I have a bit of difficulty in the vision that (the new shareholder) has for (acquired company) and (the new sister company). I can’t see how you can have two companies competing for the same market with essentially the same customer.”

During the second set of interviews they saw integration as self-evident and felt positive about the benefits of the integration, and were supportive of the process.

“... It was a natural thing to happen...that’s where you’re going to get the savings on our equipment control.”

“I’m all for it. I think that is where a lot of our savings will come from and from a single common system, I see huge benefits from that.”

“By June 2000 we will have one company with two brands, the one being (the acquired company), the other (the new sister company)...and that’s the way to structure the company.”

However as the impact of integration became more real and the threat of redundancies had become clear, the concern regarding the effects had re-emerged by December. The concern was most evident among subjects who were directly involved in or affected by the integration process.

“There are quite a few casualties...If they (the employees who have jobs) do not perform, then it means that they will need to be replaced.”

“I’m very excited about that, but quite apprehensive about the changes that will happen, especially our logistics staff. I don’t know whether they are capable of taking the change.”

“With the rolling in of (new Sister Company) backroom functions into (the acquired company), it does put pressure on our guys...but the (new Sister Company) backroom functions are not really that fantastic.”

Therefore while the subjects favoured integration and believed that the acquired company would dictate the terms of the integration and would therefore protect the company’s interest, they were concerned about the potential negative effects of the integration and what it

would mean in the long term for the company. There were indications that it could result in redundancies, and that this could affect their job security and future in the company.

#### 4.2.2.2 Impact of the Safst@r project

The focus of the Safst@r project was the migration of the operations of the acquired company to the Global system of the new parent company. The communication regarding the purpose and scope of the project was made in September 1999.

Subjects felt that the project would have a major impact on the way in which the company operated. Most subjects were positive about it but showed concern regarding the Global system itself and the impact it may have on the way in which the company operates.

“Major impact (the migration to the Global system). It will change our approach and I think the Global system is a pretty reasonable system but like any system you have to be disciplined in terms of data capture.”

“It’s really going to have an impact on the business and I’m pretty sure that it will be for the better...Efficiency and productivity should improve on one system. What I hope doesn’t happen is that the (sister company) processes are just forced onto us and not the best practice.”

“...It will be profound in terms of results...The finance systems in (parent company) are outdated. They are giving us a chance to continue with SAP so that maybe that could be the platform for future (parent company) accounting.”

“I just hope that the best system gets promoted rather than they try and fit Quay into the Global system. It’s very rigid.”

Thus the subjects were aware that the migration to the new system would fundamentally change the way in which the company operated, particularly when this was considered in conjunction with the integration of the backroom functions. These changes would thus impact on their own work, and possibly their futures. It would appear that they were not necessarily happy with the potential changes, particularly as there appeared to be some doubt as to whether the migration was a step in the right direction.

#### 4.2.2.3 Emergence of a performance driven culture

Analysis of the interviews revealed that the culture in the acquired company was slowly changing to a focus on performance. Four out of the seven subjects had at the beginning of the study voiced their frustration and unhappiness with the non-recognition of performance. This would seem to indicate that these requirements, that were more relational in nature, formed an important part of their psychological contracts.

“I’ve never had a formal performance discussion... What I’d really like to know is how I am performing against the expectations of management.”

“The company hasn’t managed the performance of teams and individuals.”

“I was never really checked on my performance.”

“My performance as an individual was not factored in (to the annual salary increase).”

Towards the end of the period of study, the subjects noted that the company had become more performance driven. Six of the seven subjects reported that their work pressure had increased since the acquired company had been sold to (new shareholders). There was a greater emphasis on achieving results and recognition for performance.

“There’s no time for bitching and moaning. It’s about getting the job done. What is nice is that the old days of rewarding the non-performers have disappeared.”

“If they do not perform then they will be shifted and replaced.”

“There’s more opportunity for people who perform.”



It is apparent that the subjects thought that the change to a focus on performance was a result of pressure by the new shareholders.

“I think it’s more performance focused. I think that the culture we have now, is one we’ve adopted for the next two to three years because we have to prove to (the new shareholder) that we can deliver.”

“(new shareholders)...they want XY and Z. Our leaders said that is what our shareholders want, key targets have been set and now we need to do it.”

“But in one or two regions we’re still having problems (with the new cost management system). It’s a matter of certain staff not buying into the process and that is not going to be tolerated in the (parent company) environment because that’s not the way they do business.”

“I presume they (new shareholder) are going to want to see what our goals are and whether we’ve delivered against them.”

Though these pressures filtered through to the managers as an increase in work pressure and responsibility, the change was viewed in a positive light. The subjects tended to regard themselves as high performers. As one mentioned, ‘...with (new shareholder) setting high standards, it’s not a problem for me.’

#### 4.2.3 Perception of management/leadership

Management and leadership issues played an important role in the degree to which the subjects felt positive towards the organisation and satisfied with their jobs. Their relationship with management was analysed at two levels: their perception of top management and their relationship with their immediate managers. Both levels of management had a bearing on their level of satisfaction with the company, with their immediate managers having a more direct impact. For the Black subjects, Affirmative Action issues in the organisation added further complexity to their relationship with management.

##### 4.2.3.1 Perception of top management effectiveness

###### 4.2.3.1.1 Management blamed for sale of company

At the time of the first set of interviews all the managers had a negative perception of management of the organisation. This was due not only personal experiences but also due to the role that top management were perceived to have played in the ‘downfall’ of the organisation. The subjects felt quite strongly that the organisation had been badly managed and that this had resulted in the need for the company to be sold. Most responses were highly critical

“Our destiny is in the hands of a few people, who either ran for cover or

made wrong decisions... We've been sold down the river... Certain people were too scared to make tough decisions... The company has been let down."

"Change management didn't happen as effectively as it should have."

"(The acquired company) was just too slow in reacting to changes that were taking place around them... What my concern is that for the next 15 to 20 years that the same people are still in senior positions who have brought the company to a point where it had to be sold."

"Unfortunately it was badly managed, which was why the company had to be sold."

#### 4.2.3.1.2 Existence of "Old Boy's Club"

All the subjects also mentioned the existence of an "Old Boy's Club" which influenced whether people were placed in positions or not. As one manager said:

"The company has been run as a Boy's Club and you either have someone

giving you a hand up or it's a right royal battle."

"...there was an Old Boy's Club running (the acquired company), and there were people in designated jobs where they didn't have full time jobs, and senior management knew about it, but didn't do anything about it."

The club was however seen to be disappearing with the appearance of (new shareholder) and the change to a performance driven culture.

"(the acquired company) has always been 'old school'...I think that has changed as well. People are seeing you for what you are worth."

#### 4.2.3.1.3 Enhanced credibility of management

Over the period of review more positive perceptions began to emerge as top management communicated clearer direction and focus.

"There is more clarity from Copenhagen as to what is required and there is now more focus, more direction from the top."

"What is nice is the clear direction from the leadership side."

“The management of (the acquired company) has shown thus far that they are able to keep (the acquired company) on its own without much interference from Copenhagen.”

“I think the leaders have done a good job. I think that they have been driven by the pressure from our new shareholder. Direction is there, there is a lot more communication.”

#### 4.2.3.2 Relationship with immediate superiors

On an individual basis, the subjects' satisfaction with their work environment was influenced by their relationship with their immediate superiors and top management.

One manager felt extremely de-motivated at the beginning of the study due to the lack of recognition, direction and support he was receiving from his manager. However due primarily due to the influence of and interaction with the General Manager of the acquired company, he was feeling much happier with his job and the work environment.

“I feel that I have the support of Gail and Gerry... Gail allows me to get the thing going... I'm getting the support of certain people in the company... I appreciate the support Gail has given me, the confidence she has shown in me.”

Another manager moved to another department due to dissatisfaction with the way in which her department was being managed.

“I’m quite disillusioned with the leadership at the moment. I think that for me there would have to be a change in the near future for me to continue to stay. “

The manager took a position in another department soon after this interview took place.

#### 4.2.3.3 Management of Affirmative Action issues and discrimination

An issue that was brought up by all the Black managers was that of racism and Affirmative Action. It was particularly relevant for two of these managers, as they had been through a recruitment and selection process prior to the start of the study. They had thought that affirmative action had not been considered when one of them had not been appointed to one of two positions. Indications are that they experienced this a breach of their psychological contract, and had experienced strong feelings of disappointment and disillusionment with top management.

“It had to happen to wake me up....I then realised I had to speak up for myself...create an opportunity for other people to speak because being a senior manager or manager within the company...If I

didn't speak up, how could I expect staff at lower levels to speak up about inequities within certain areas."

"With the last position, it seems the company isn't really faithful to you at all."

They raised these issues with top management. Due to the way in which the issues were handled, they felt that their grievances had been heard and was being handled. They still however felt that there were still issues that needed to be solved, and that some people in top management were not committed to driving the Affirmative Action issue.

"There are still a lot of people in the company at high levels that are still doing things just the way they want to."

"We as Blacks have to push the process faster and the Whites have to learn to let go of the past."

The issue had also taken a back seat because of the circumstances of the company.

"It's taken a back seat and I think it is taking a back seat because of what is happening in the company...I think it's a matter of survival."

Though Affirmative Action was an issue felt primarily by the Black subjects, one White subject did raise his concern regarding the effects implementing an Affirmative Action strategy. He thought that it would have a negative impact

on performance and felt strongly that he would not accept 'window dressing'. He also showed concern regarding the development of his career and his future in the company.

"I've become despondent as to what my future is in (the acquired company) because there is Affirmative Action."

The only woman in the group felt the presence of discrimination, and felt that there was a lack of integrity in terms of recruitment, career and succession planning. The influence of the Boy's Club was particularly visible to her, and she saw its existence as an obstacle to the further development of her career in the company (as noted in an earlier quote).

"The company has been run as a Boy's Club and you either have someone giving you a hand up or it's a right royal battle."

#### 4.2.4 Attitude towards the acquired company and new shareholder

Analysis of the interviews over the period of study indicates that six managers identified very strongly with the acquired company while the seventh identified strongly with its agency division, even though top management and leadership of the company may have lacked credibility. This affiliation continued to remain strong and became even stronger when direction and focus began filtering through to the subjects. Though the influence of new shareholder was positive in some respects (i.e. the shift towards a performance



driven culture, and their influence on the direction and focus of the company), in other ways the subjects initial positive attitude towards the new shareholder began to slowly diminish as time passed.

#### 4.2.4.1 Identification with the acquired company

The identification with the acquired company was reflected in a number of different ways.

“...No partner is good enough for (the acquired company).”

“It’s a company steeped in history. There is a sense of pride – I still answer the phone ‘-’, not (the agency), and we’ve been (the agency) for nine years... That made me proud to be part of the organisation. Always have been, and I think always will be.”

“I’ve always been a (the acquired company) person.”

“I have been quite sad about (the agency) losing its identity, but I’ve always been very proud and very passionate about what (the agency) was about and what we were achieving.”

“We are the company...Our input into the company has to ensure that we move this company forward.”

“(The acquired company) needed me more now in South African than for me to be part of that team (Logistics project team based in Copenhagen) because I wouldn’t have learnt anything new on the team.”

“And we believe that all our futures are with this company. It’s not management’s company. If this company sinks, we’re going to sink with it. So we must make it work.”

The above excerpts demonstrate that the subjects felt strong loyalty and commitment to the acquired company, felt that they were part of the company and believed that their contribution was crucial to its success. According to Millward & Hopkins (1998), high identification with the company tends to indicate a relational orientation of the psychological contract. The excerpts also highlight that they identified with the acquired company and not the new parent company.

#### 4.2.4.2 Attitude towards new shareholder

Though they had strong loyalty to the acquired company, they did display a positive attitude towards the new shareholder from the start.

“I’d rather have (new shareholder) than (rival company) as our new owners. It creates tremendous opportunity for us.”

“It’s a change from a passive to an active investor that can only benefit.”

“It’s the best thing that could have happened to (the acquired company) because we can be assured that we are with a company who is number one, who is the biggest in the world.”

“There’s so much opportunity now that we can’t fail... The Danes has a history of being associated with the struggle.”

“It excites me that recognised leaders in our industry have seen fit to buy (the acquired company).”

Though the subjects remained fairly positive towards them, their feelings became slightly more negative as they became more exposed to the new parent company culture and the way in which the company operates.

“They are not all they make themselves out to be.”

“The sort of impression that I got when they came was that they would do things bigger and better, but that’s not always the case... There are some processes that we do better.”

“They are like clones.”

“The way that they treat their staff compared to (the acquired company) is like chalk and cheese...And their attitude is that they don't serve, they just manage. Some of us are made to serve...Their attitude to staff is terrible. That is one reason why they have such a high staff turnover.”

“What still comes through again and again is their arrogance...I'm still a bit suspicious about why they haven't declared their hand to us because I don't think they have.”

Thus the attitude to the new shareholder became less positive as the subjects began to feel the impact of the shareholders. As mentioned before this was particularly evident in their insistence on results and performance and the communication of a clearer vision for the acquired company. While this seemed to have a positive effect, it appears as if the integration of the backroom functions and the migration to the Global System aroused more negative sentiment. It would seem that the positive effects of the sale were ascribed primarily to the management of the acquired company, while the negative impact seems to relate to the decline in the positive attitude towards the new shareholder.

#### 4.2.5 Future with the acquired company and the new shareholder

##### 4.2.5.1 Future of the acquired company

The subjects were fairly positive at the beginning that the acquired company would turn around financially and that the company would maintain its independence.

“If we are allowed to work on our own, and learn to work together and make use of each other, then we can make it work.”

“I see it all as a huge opportunity... There’s a huge window out there for us to go out and get it.. It’s in their interest to keep the acquired company and its sister company separate entities in order to maximise their exposure in the market.”

“There’s so much opportunity now that we can’t fail. If we fail then it is due to our own incompetence... The Company as it is structured now will outperform most of (parent company’s) divisions world wide.”

There was some doubt though, as expressed in the following way by one of the managers:

“That’s going to be a huge challenge, to turn this company around. Otherwise I can see more and more the Big Blue coming in and cracking the whip.”

This doubt and fear was more readily expressed as the months progressed.

“So if we don’t make use of the time that we have now to go out and get fit, and get our act together, they will send the blue boys here to eat us up....If we can’t pull the company out of the shit and get the result that (the new shareholder) want, they are going to bring their own people in and there might not be place for people like me.”

“The question on everybody’s mind is how long will we have separate branding and separate front offices...But then we have got to make sure that it works otherwise you and I could be painted blue and have a big white star stuck somewhere on our anatomy.”

Three of the manager’s were quite pessimistic as to whether the acquired company would survive.

“I think that at the end of the day that the (the acquired company) name will disappear. Eventually we will be operating as (the new sister company).”

“I think it is just a matter of time before the company is fully taken over and run in a manner that they run (the new sister company)...However

to think that we will be left alone and just continue to do our own thing is a fool's paradise.”

“Although we were doing badly I believed that (the acquired company) was a force to be reckoned with, and would succeed ultimately. I'm not so sure about that anymore and it is primarily linked to leadership ability or lack thereof.”

#### 4.2.5.2 Job security: the future in the acquired company and with the new shareholder

The subjects felt that their futures were secure with the acquired company. They were however uncertain about whether they had a future with (the new shareholder) or not.

##### 4.2.5.2.1 Future with the acquired company

There was a sense among subjects that their future in the company was not totally guaranteed as a result of the general changes taking place in business and the environment..

One subject felt that the company had previously had a culture that guaranteed a job for life, but that had changed.

“(The acquired company) always had a culture of a job for life, and I think that's broken now.”

Another subject echoed his sentiments.

“The corporate environment, it was a protected environment. It’s no longer a protected environment.”

Despite this general feeling of uncertainty, five of the seven managers interviewed felt secure regarding their position or saw a future for themselves in the company. Even when there seemed a possibility that their jobs could become redundant, they believed that the company would find another position for them. They recognised the role they played in the organisation and were fairly confident of their value to the organisation.

“Job security is not an issue...I’m not at all worried about it (his position). If someone from (the new sister company) takes over, it’s fine by me. I’ll be given another position.”

“I am quite open-minded about it (his position becoming redundant)...I definitely have a future with (the acquired company). It will be whether I will be granted the opportunities that I want that will dictate whether I will be working in this company in two years time or not.”



One subject was confident of his future in the company but thought his future hinged on whether the acquired company would remain independent or not.

“There is a possibility that my job could be redundant, but I think there is still a window of opportunity where that won’t happen.”

The two subjects who were initially considering leaving the company began to feel differently over the six months of the study. One subject had initially said that she had not seen a future for herself in the acquired company until the company had been sold to the new shareholder. After six months she was feeling positive about her future in the company, though not necessarily in the new parent company.

“Lots of people right now and I think with my particular skills right now, in the change and turmoil, they could use me in a number of different areas quite effectively for a long time.”

Another subject had at the start of the study felt quite disillusioned with the company and was insecure regarding his future.

“My future with the company? Take each day as it comes. There are not guarantees.

The company used to be a family. It is no longer a family. If I had my life over, I most probably wouldn't be working for this company."

However he felt more positive about the company and about his future after six months, though there still indicated some insecurity about his future.

"I also recognise that if I were to leave this job right now, it will leave a big hole. Not that I'm indispensable...I realise that I'm not going to get a package, so I'll be here for the next three years with the company, before they fire me."

#### 4.2.5.2.2 Future in new parent company

The positive feelings displayed by the subjects toward the new shareholder were related in part to a perception that there were greater career opportunities in the group. While they were fairly secure about their futures in the acquired company, most had reservations about whether there were opportunities for their own career development in the parent group itself. A couple of managers saw their age as a barrier to that opportunity.

"I think if I was a bit younger, it would have been a nice opportunity to travel again but I've done that."

“You have to be young... The fact that I’ve got children makes it difficult.”

The subject who had voiced the latter excerpt had initially been quite positive regarding the possibility of being placed elsewhere in the new parent group.

The sale to the new shareholder was seen as an opportunity to rekindle her career in the company by another subject.

“Until the (new shareholder) thing, I didn’t see a long-term career here as an option.”

Six months later she however had reservations about whether this was the case.

“It’s most probably less likely that there will be an opportunity for me in the future (because of the agency restructure).”

She did however remain positive about future opportunities in the group.

“I do think that if you have ability and you are prepared to work hard the likelihood is that you have a life time career in a group this size.”

## **CHAPTER 5: DISCUSSION**

The aim of the research study was to investigate whether the changes resulting from the acquisition of a company would be experienced as a breach of the psychological contract that managers had with the affected company.

The discussion will therefore focus on changes which occurred over the six month period of the study, and the effect this had on the psychological contract of the subjects and their relationship with the affected company, as well as the shareholding company. The discussion will look at the changes to the employment contract, organisational changes that have taken place and the impact they have had on the psychological contract with the acquired company and the development of a psychological contract with the new parent company.

### **5.1 Nature of the psychological contract**

The subjects appeared to have psychological contracts with the organisation in which both relational and transactional components were considered important. Six of the seven subjects had been with company for nine years or more, and had developed their career in the organisation. As Rousseau (1990) pointed out, loyalty and commitment to the company seems to indicate that the subjects who display this behaviour will tend to have psychological contracts that fall on the relational end of the continuum. The need for non-monetary recognition of their performance also played a prominent role in their psychological contracts. On the other hand, remuneration and benefits, considered to fall on the transactional end of the continuum, were also very important components of the subjects' contract.

The seventh subject appeared to have a stronger transactional orientation. He had only been in the company for three years and believed that staying too long in one organisation would be detrimental to his career. He also placed a heavy emphasis on being paid a market-related salary, and stated that he would leave the organisation if he was not paid adequately, and the need for career development opportunities was not met.

The nature of the subjects' psychological contracts is consistent with results from previous research (e.g. Rousseau, 1990; Millward & Hopkins, 1998; Parks, Kidder & Gallagher, 1998) that show a relational-transactional continuum exists. Employees will tend to have both relational and transactional components in their psychological contracts, and these will be determined by the employees' needs and the organisational context.

## 5.2 Impact of changes to the employment contract

On re-negotiating employment contracts with employees who had been identified to transfer to the company which had been bought by the new shareholder, a management decision was taken that the terms and conditions of employment would remain substantively similar. The only changes to the contract (i.e. the medical aid and pension fund) was the result of the sale of the different business units of the original shipping company to different shareholders, and the decision to discontinue the EVA incentive scheme followed a directive from the new shareholder.

The results indicate that the decision to protect the terms and conditions of employment, except where absolutely necessary, helped to protect the psychological contract of the subjects with the company. The subjects felt that the process had been well handled and that the terms and conditions

had not changed substantially, despite the fact that the medical aid and pension funds had to change.

Though the change in the medical aid caused some dissatisfaction, the problems experienced were not seen to be the result of a bad decision by the acquired company. The problems or fault were attributed to the medical aid fund itself. This may indicate that the managers had a high level of trust that the company had their interests at heart. The trust appears to be the result of the belief that the company would take care its employees. As one subject said, “(the acquired company) takes care of its people”. The way in which the re-negotiation of the contracts was handled reinforced this belief. The high level of trust was also reflected in the belief that the trustees of the pension fund would make a good decision regarding the resolution of the fund.

The results therefore reinforce the argument that trust has substantial significance in the way breach is experienced. It is likely that employees with a high level of trust in the company will be more likely to interpret or rationalise breach of the psychological contract in a positive way, or in a way which deflects blame for the breach from the employer (Robinson, 1996).

Lucero & Allen (1996) argue that communication regarding changes in employee benefits and their involvement in determining the benefits, will diminish the likelihood of employees experiencing violation of the psychological contract. In this case the changes in the terms and conditions of the employment contract appeared to be well communicated (i.e. briefing sessions were held nation-wide), and there were employee representatives on the medical aid and pension fund committees. Both facts contributed to the positive perception of the handling of the contracts.

Though the withdrawal of the incentive scheme caused greater negative sentiment towards the company, the criticism and dissatisfaction was deflected to a large extent because of their understanding that it was stopped because the new shareholder did not in principle believe in group based incentive schemes. Also, the company tried to compensate for the loss of the scheme through including a market-related incentive in the salary ranges used in July 1999.

Therefore, although the psychological contract was breached as the company had failed to meet its promise to reward employees for good performance by paying an incentive, the subjects' negative feelings were not too severe. Their high level of trust in the organisation and the organisation's handling of the issue enabled the two parties to re-negotiate the psychological contract regarding this aspect of remuneration in an acceptable manner. This would seem to confirm the model of psychological contract breach and violation developed by Wolfe Morrison and Robinson (1997), that proposes that the perception of psychological breach does not necessarily lead to the experience of violation. As the experience of violation seems to have a greater negative impact on the contract, future research should investigate which factors may result in perceptions of breach that are severe enough to cause feelings of violation.

What was also evident was that where people were directly affected by the changes, they were more likely to react negatively. For instance one manager experienced the withdrawal of the subsistence allowance as a breach and violation of the psychological contract. Her personal circumstances also played a role in the level of violation she felt as she was going through a divorce at the time. One of the reasons given for the failure of her marriage was that she spent so much time away from home on business travel. She felt that because it had cost her so much personally, she should have been compensated in some way by the

organisation for what she had given up for it. When the subsistence allowance was withdrawn she perceived this not only as a psychological breach, but also experienced violation of the contract. No provision for an alternative to the subsistence scheme had been made at the time. This had a negative impact on her trust in management, particularly of the Human Resources department, which was reflected in her concern regarding the return to an autocratic management style. Thus, as argued by Wolfe Morrison & Robinson (1997), the salience of a particular aspect of the psychological contract will determine the extent to which an employee will experience violation.

Overall the subjects perceived that the organisation had made every effort to keep its side of the psychological contract, and where this was not possible, accepted that it was the result of circumstances beyond the organisation's control rather than reneging on the contract. Therefore changes on the whole were not experienced as breach of the psychological contract, unless the 'condition' violated was seen to be in the control of management and was of importance to the employees concerned.

### 5.3 Impact of organisational changes

The organisational changes had a major impact on the relationship that the subjects had with the organisation. The major organisational changes were the integration of the backroom functions of the sister company and the acquired company, and the migration to the Global System of the parent company. Though managers were positive about the integration and realised the benefits to the company of the process, their concern regarding the long-term effects of the integration was evident as the impact of the integration began to be felt. The potential for redundancies became evident and there was a danger that this could effect on the psychological contract of the managers in terms of job security. Job



security was an issue for all of the managers for obvious financial reasons. They were all married and had a family to support. The female subject initially had less concern regarding job security. However, when she started divorce proceedings, job security became a major issue for her, and thus started playing a more important role in her psychological contract with the organisation.

It appears that job insecurity did not at the time of the research constitute a breach of the psychological contract for people. This can be explained in part by the fact that the organisation had committed itself to reduce headcount through natural attrition rather than a retrenchment exercise. Also, there had been no direct threat of redundancies for the subjects, except for one of them whose position had been secured by the end of the research period. If their positions were threatened, the subjects were all confident that the company would find a position for them as they believed that the acquired company recognised their value and would not want to lose them. The threat of redundancies also appears to be balanced by the greater opportunities for career development that subjects were experiencing.

It would therefore appear that the psychological contract is constantly being 're-negotiated' by employees. This points to the fact that it is probably only when the negative consequences of breach is perceived to outweigh the contribution of the employees and their needs, that it will cause a break in the contract. The severity of the breach will determine whether the employee will leave or stay with the company.

The willingness to adapt or mentally to 're-negotiate' the psychological contract appears to be grounded in the belief that the company would continue to act in good faith and keep its side of the bargain. The subjects seemed to believe that the company would 'take care' of them by either

retaining their position or providing them with an alternative position if it became redundant. This is a clear indication of the importance of trust referred to by Robinson (1996). The study findings supports this trust in the organisation to some extent because of the way in which the new employment contracts were handled, and the way in which the subjects believed that the pension fund resolution would be properly handled in their best interests. This also emphasises the results of the study by Rousseau (1990), that concludes that the culture of the organisation plays a major role in the way in which the psychological contract develops between an individual and an organisation.

The change to a performance driven culture was regarded as a positive effect of the sale to the new shareholder. As the participating managers regarded themselves as high performers in the company, they felt positive regarding this change as it was likely that their performance would be recognised. The recognition could take the form of promotions, potential overseas career opportunities, additional responsibilities and this may have had the effect of strengthening the psychological contract that the subjects had with the company, as recognition was regarded as an important part of their psychological contract with the company. As Porter, Pearce, Tripoli & Lewis (1998) argue, recognition for good performance is a way of bestowing honour and dignity on an employee. Since it does not require much effort or cost money, employees are likely to hold the organisation more accountable for a lack of recognition than for any other inducement. The experience of violation will therefore be more severe when a breach is experienced because of a lack of recognition, as was reflected by two of the subjects in the study.

This was most evident in the case of the subject who felt highly demotivated and had expressed doubt about his future in the company. He had felt that his contribution had not been recognised. As more emphasis

was put on performance and he was given greater recognition and opportunities, his motivation and job satisfaction increased and his commitment to the organisation strengthened.

#### 5.4 Role of management in maintaining the psychological contract

The role of management and leadership in strengthening or creating psychological contract breach was highlighted during the study. As agents of the company they would have a major impact on the development of the psychological contract that employees developed. As the results indicated, management and leadership of the company lacked credibility with the managers. They were blamed for the sale of the company to the new shareholder. However as they were able to give the organisation greater direction and focus, and their communication regarding the company's goals improved, their credibility improved. Management were also seen to act in good faith in the way they handled the new employment contracts, the annual increment exercise and their promise to reduce headcount through natural means and not through retrenchment. This helped to bolster the subjects' psychological contract with the company.

Individual managers and leaders influenced the degree of violation that the subjects felt when management action breached their psychological contract. Where managers were able to restore a level of trust with the individuals, the psychological contract was re-negotiated. When managers were not able to meet individual's expectations, it led to perceptions of breach and feelings of violation, and resulted in de-motivation and greater intention to leave.

## 5.5 Implications of identification with the acquired company

The results also revealed that the subjects identified very strongly with the acquired company. This could create problems in that if they experience psychological contract breach they would more likely place blame at the door of the new shareholder than the acquired company. This could be due to the fact that the subjects had as yet not had time to develop a trust relationship with the new shareholder, and were therefore more likely to blame them for any negative outcomes of the integration, rather than the acquired company. It is likely therefore that their commitment to the new shareholder may diminish, and this could have serious implications in terms of the co-operation required between the new parent company (and sister company) and the acquired company for both companies to meet their objectives. With low identification with the shareholders the relationship with the new sister company might be quite competitive and antagonistic with an 'us and them' attitude prevailing, and the new shareholder might not see the results that they require.

The integration of the backroom functions and the Safst@r project also created doubt in people's minds regarding the future of the acquired company. This doubt is compounded by the threat that the acquired company may lose its independence if the results do not show an improvement. This uncertainty leads to job insecurity, and could lead to greater commitment to leave among employees. A further longitudinal study is needed to assess the long-term impact of these and other developments on the relationship of employees with both the acquired company and the new parent company, and therefore their psychological contracts.

The attitude to the new shareholder was initially fairly positive. This however began to diminish as the subjects had greater exposure to the way

of operating and culture of the new parent and sister companies, which was in many respects different to the culture of the acquired company and was therefore experienced in a negative way by individuals. The integration also had a negative impact in that it created uncertainty amongst employees as to whether the acquired company would remain independent and whether their jobs were secure. However as their attitude became less positive, they saw less opportunity for themselves in the wider parent company, and this in turn could have a negative impact on their psychological contract with the new parent company.

#### 5.6 Re-negotiation of psychological contracts

The results reflect the dynamic nature of psychological contracts. Psychological contracts are constantly being re-negotiated. Whether breach and violation of the contract is experienced depends on the degree to which individuals hold the company responsible for the action, the importance of the issue to the individual and the level of trust that the individual has in the company and its management (Rousseau, 1990).

#### 5.7 Limitations of the research study

The six-month period over which the research limited the extent to which the study could assess the impact of the changes that were occurring in the organisation on the psychological contracts of the subjects. It is therefore suggested that further research be conducted over a longer period to assess the impact of major organisational changes on the contracts of the subjects. At the time of the study, the organisation had as yet not experienced the effects of the change interventions that were planned.

Also, the study focused on the employees' perspective and the impact that it had on individual employees. Research is needed to gain the

organisation's perspective to enable the researcher to gain a holistic picture of the events and changes occurring in the organisation.

The role of the 'internal' researcher had both positive and negative effects. On the positive side, the researcher was able to understand the context of the subjects with greater depth, and had developed a trust relationship with the subjects that enabled her to gain access to information that may not have been possible to an external researcher. However, the relationship with the subjects' may have also limited the extent to which the researcher felt comfortable in probing sensitive areas that may have compromised the individuals and her. The issue of confidentiality was a sensitive topic for all the subjects, and they may have felt reluctant to reveal sensitive information if they felt it might jeopardise their future.

## CHAPTER 6: CONCLUSION

When an organisation experiences a major change intervention such as an acquisition, those changes are bound to have an impact on the psychological contracts of employees. It would appear however that though employees may become aware of the breach of the psychological contract, the degree to which it is experienced as violation can be influenced by various factors.

The way in which changes are managed and the role that management and leadership play in facilitating the change process appear to be important in determining the degree to which employees are willing to re-negotiate their psychological contracts with the company. Though top management of the company initially lacked credibility with the subjects, the way in which changes were handled helped to re-establish a more positive view of the company. It is important that management is seen to be acting in good faith in trying to meet their 'side' of the psychological contract in order to maintain employees' commitment to the organisation.

It would also appear that the psychological contract is quite dynamic and that it is constantly being re-negotiated on an individual level. Personal circumstances, the importance of particular aspects of the contract to the individual and the level of breach will influence the degree to which violation will be experienced. The type of psychological contract and the level of trust in management and the organisation also had a major role to play. The willingness of employees to re-negotiate their psychological contracts could be attributed to the high level of trust that the subjects had in the company.

It would also appear that employees continued to identify very strongly with the acquired company. The acquisition and the resultant changes have possibly reinforced the identification with the acquired company. A consequence of this is that integration with the parent company will be hindered. It is likely that if the company should lose its independence, this is likely to be experienced as a severe breach of the psychological

contract. The way in which the company is managed in the future therefore needs to be carefully considered, and the management of the parent company and the acquired company need to establish an environment in which employees feel that they have a future.



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## **APPENDIX 1**

### **GUIDELINES FOR IN-DEPTH INTERVIEWS**

## **INTERVIEW 1**

### **Background**

- Personal
  - Age
  - Family
  - Life priorities
  - Other interests/involvement
- Educational history
  - Qualifications
- Employment history
  - Previous
  - With the acquired company

### **Occupational commitment**

- Present role
- Career aspirations
- Career plan/goals

### **Relationship with/attitude towards organisation (organisational commitment)**

- Reasons for joining the acquired company
- Perceptions of the company before joining
- Changes in perceptions/attitudes – reasons for change
- Impact on relationship with the organisation

### **Psychological contract**

- Perception of expectations/requirements of organisation
- Promises/obligations of organisation (reciprocity)
- Development of beliefs/expectations
- Changes in beliefs/expectations during years with the company
- Level of trust

### **Attitude towards change/change management**

- Challenges faced/significant change events experienced (critical incidents)
- Coping/dealing with critical incidents
- Views/attitude on change
- Impact of change on organisational commitment/occupational commitment
- Extent of control/influence over events (locus of control)

### **Stress management**

- Stressors/level of stress
- Impact on life outside of work
- Coping resources/mechanisms
- Support received

### **Views on acquisition**

- Attitude towards/understanding of acquisition
- Expectations
- Impact on role/self



## **INTERVIEW 2**

### **General questions**

- Developments in job
- Changes
  - General
  - Result of sale to new shareholder
- Level of pressure
  - Coping
- Views on new shareholder
- Developments in family

### **Events**

- Change to the name of the acquired company
- New shareholder presentation
- Testing done by parent company
- New contracts
- Dissolution of medical aid and pension funds
- Loss of incentive scheme
- Annual increase
- Moving offices
- Appointment of Jens Norgaard (Finance Executive – Parent company expatriate)
- Logistics Brief

### **Specific questions to interviewees**

## **INTERVIEW 3**

### **General questions**

- Changes
  - General
  - Result of sale to new shareholder
- Level of pressure
  - Coping
- Views on new shareholder at present
- Future of the acquired company
- Developments in family

### **Events**

- Integration of acquired company and its sister company's backroom functions
- Implementation of Safstar project
- View regarding the medical aid fund
- View regarding progress made with pension fund
- Payment of incentive
- Affirmative action (if appropriate)

### **Specific questions to interviewees**

**APPENDIX 2**

**CALENDAR OF EVENTS**

**CALENDAR OF EVENTS IN ACQUIRED COMPANY (MAY – DEC 1999)**

MONTH	WK1	WK2	WK3	WK4	WK5
MAY		<p><b>12:</b> Brief re swop of redundant staff in holding pool</p> <p><b>13:</b> Brief re need to sign new employment contracts</p> <p><b>14:</b> Welcome letter by new shareholder</p>	<p><b>17:</b> Brief re new Agency Head Office structure</p> <p>Brief re new contracts &amp; briefing sessions</p> <p><b>18 - 21:</b> Briefing by re sale to new shareholder</p> <p>New appointment contracts went out</p> <p><b>20:</b> Brief re international exchange of staff within parent group</p>		
JUNE	<p><b>1:</b> Official mgt control by new shareholder</p> <p>Start of Fin year-end</p> <p><b>3:</b> Brief re legal action by Golden Ocean group vs Corporation</p> <p>Brief re restructure in Trades Cluster (appointments)</p> <p>Farewell brief from Chairman</p>	<p><b>7:</b> Major office moves in building started</p> <p><b>9:</b> Brief re restructure of PR dept</p>	<p><b>19:</b> Ore/bulk divisions move out of building</p>	<p><b>21- 22:</b> Testing &amp; feedback by new parent company</p> <p><b>22:</b> Brief re restructure of W Cape Reg office (Sales)</p>	
JULY	<p><b>1:</b> Ex-pat Finance Executive started</p>	<p><b>7:</b> Brief re new med aid (Discovery)</p> <p><b>9:</b> Annual increase letters</p> <p>Brief re Interim Representative body to oversee move to new Pension Fund</p>	<p><b>14:</b> Brief re approval to dissolve old Med Aid</p>	<p><b>20:</b> Brief re De-Mutualisation benefits</p> <p>Brief re adoption of one brand (logo &amp; flag)</p> <p><b>2:</b> Brief re agreement for another acquisition by shareholder</p>	<p><b>27:</b> New med aid presentation</p>

AUGUST	3: Logistics brief re integration between acquired company & sister company globally		20: Brief to Execs re moratorium on external recruitment	23: Brief re new Pension Fund	
SEPTEMBER	1: Brief re the end of Agency as a brand Start of budget process 3: Brief re "Creating & Communicating the future of acquired company" – vision	8: Brief re move to Global operational computer systems 9: Brief re organisational analysis 10: Brief re liquidation of old Med Aid	13 – 15: Organisational analysis – PI/LI 14: Brief re moratorium on Leave in Dec/Jan		
OCTOBER		6: Project team re transfer to Global computer systems announced			29: Brief re Safstar project
NOVEMBER	1: Sister company posts jobs in acquired company for 1 <sup>st</sup> time	10: Another Ex-pat starts in Trade Finance 12: 2 <sup>nd</sup> set of job postings from sister company	19: Brief re integration of backroom functions Brief re new Discovery benefit structure Safstar progress report	25: Brief re joint operation on West Africa Trade	29: Brief re EVA incentive pay out 30: 3 snr managers resign from Trade Development division
DECEMBER	1: start of financial year end process	9: Announcement re official shareholder acquisition of global American shipping company	13: Brief re Agency EXCO restructure Brief re subsistence allowance 14: Brief re-branding of acquired company globally	23: Trade Development appointments	